Dedicated success

Credit Union Central of Manitoba

Annual Report 2002

Manitoba's Credit Unions

serve 118 communities throughout the province, giving Manitobans substantially better access to quality financial services and products than any other financial institution.

Altona
Amaranth
Angusville
Arborg
Ashern
Austin
Baldur
Beausejour
Belmont
Benito
Birds Hill
Binscarth
Birch River
Birtle
Boissevain
Brandon
Bruxelles
Carberry
Carman
Cartwright
Cypress River
Dauphin
Deloraine
Dominion City
Emerson
Erickson
Eriksdale
Ethelbert
Flin Flon
Foxwarren
Fisher Branch
Gimli
Gilbert Plains
Gillam
Gladstone
Glenboro
Glenella
Grandview
Gretna
Grunthal
Hamiota
Hartney
Headingley
Holland
Inglis
Inwood
Kenton
Killarney

All figures preliminary unaudited results

Where credit unions have Winnipeg and non-Winnipeg branches, the location of the home branch is used for these statistics

Memberships

Manitobans opened 12,327 new credit union memberships in 2009, for an annual increase of 2.2% over 2008. Membership in Winnipeg-based credit unions now stands at 244,364 (43% of the provincial membership figure of 566,001) and membership in credit unions based outside the provincial capital is 321,637 (57%). Most of the 2009 increase was recorded by credit unions outside Winnipeg (11,609 compared to 718), although there are credit unions based outside Winnipeg that do business inside the city, and vice versa. In the 10 years since 1999, membership in Manitoba credit unions has increased by 168,000 (42%).

Number of Credit Unions & Locations

Two amalgamations occurred in 2009. On July 1, four Southern Manitoba credit unions — Agassiz, Altona, Dufferin and Heartland — joined forces to create Access Credit Union, the fourth largest in the province in terms of assets ($1.2 billion) and members (36,000), both. They were joined by the oldest incorporated credit union in the province, Lowe Farm, on January 1, 2010. In October, Ste. Rose Credit Union and Caisse Populaire Laurier merged to create Prairie Mountain Credit Union — which nudged up the number of branches in the province as well as the number of communities (68) in which a credit union is the only financial institution available to local residents and businesses.

Lac du Bonnet
Landmark
La Rivière
Laurier
La Salle
Lowe Farm
MacGregor
Manitou
Mariapolis
McAuley
Melita
Miami
Miniota
Minnedosa
Minto
Moosehorn
Morden
Morris
Neepawa
Newdale
Ninette
Niverville
Oak Bank
Oak Bluff
Oak Lake
Oak River
Oakburn
Oakville
Pilot Mound
Pinawa
Pine Falls
Pine River
Plum Coulee
Plumas
Portage la Prairie
Reston
Rivers
Riverton
Roblin
Rorketon
Rosenort
Rossburn
Russell
St. Lazare
Ste. Rose du Lac
Sandy Lake
Sanford
Selkirk
Shilo
Shoal Lake
Souris
Sprague
Starbuck
Steinbach
Stonewall
Strathclair
Swan Lake
Swan River
Teulon
The Pas
Thompson
Treherne
Virden
Vita
Waskada
Whitemouth
Winkler
Winnipeg
Winnipeg Beach
Winnipegosis

System Assets

Manitoba credit unions ended the year with $15,855,219,171 in assets, a 9.83 per cent increase over 2008. Winnipeg-based credit unions account for $6.87 billion (43%) of total assets and credit unions based outside Winnipeg account for $8.98 billion (57%) — the same as the membership split. Since 1999, credit unions have grown at an annualized rate of 11.85% and are now more than triple the size (206%) they were a decade ago.

Loans and Deposits

Lending growth returned to a more traditional — and very healthy — level of 11% in 2009 after the exceptional growth of over 14% experienced in 2008 (a year during which most other financial institutions had less funds available to lend). Growth was highest in commercial real estate, followed by residential mortgages. The rate of deposit growth was just one per cent lower than the previous year, finishing 2009 at 10.56%.

System Equity

Consolidated system equity grew by $97 million over the course of 2009, ending the year at $1,089.6 million. This figure includes $931.9 million in credit union equity, $145.8 million held by the Credit Union Deposit Guarantee Corporation (CUDGC) and $11.9 million held by CUCM. A strong equity position is a key measurement of the strength of credit unions and the entire Manitoba system. In addition to the security that comes from this position, CUDGC provides members with a 100% guarantee on all member deposits and interest earned thereon.

Manitoba's Credit Unions

District 1

Steinbach CREDIT UNION [2 BRANCHES]

District 2

Assiniboine CREDIT UNION [24]

District 3

Cambrian CREDIT UNION [11]

District 4

Belgian-Alliance CREDIT UNION [3]
Carpathia CREDIT UNION [3]
Casera CREDIT UNION [3]
Entegra CREDIT UNION [3]
Me-Dian CREDIT UNION [1]
North Winnipeg CREDIT UNION [2]
Winnipeg Police CREDIT UNION [1]

District 5

Access CREDIT UNION [12]
Crosstown Civic CREDIT UNION [8]
Sunova CREDIT UNION [9]

District 6

Arborg CREDIT UNION [2]
Dauphin Plains CREDIT UNION [3]
Eriksdale CREDIT UNION [3]
Ethelbert CREDIT UNION [2]
Flin Flon CREDIT UNION [1]
Gimli CREDIT UNION [2]
Grandview CREDIT UNION [1]
Prairie Mountain CREDIT UNION [2]
Riverton CREDIT UNION [1]
Roblin CREDIT UNION [2]
Rorketon & District CREDIT UNION [1]
Swan Valley CREDIT UNION [3]

District 7

Amaranth CREDIT UNION [1]
Austin CREDIT UNION [5]
Beautiful Plains CREDIT UNION [2]
Crocus CREDIT UNION [2]
Erickson CREDIT UNION [1]
Minnedosa CREDIT UNION [1]
Portage CREDIT UNION [3]
Sandy Lake CREDIT UNION [1]
Strathclair CREDIT UNION [4]

District 8

Community CREDIT UNION [3]
La Salle CREDIT UNION [1]
Niverville CREDIT UNION [2]
Oak Bank CREDIT UNION [2]
Rosenort CREDIT UNION [1]
Sanford CREDIT UNION [2]
Starbuck CREDIT UNION [2]

District 9

SunRise CREDIT UNION [12]
Vanguard CREDIT UNION [14]
Westoba CREDIT UNION [20]

District structure in effect January 1, 2010

Credit Union Central *of* Manitoba

Annual Report 2009

Dedicated
success

Credit Union Central of Manitoba *[CUCM]*

is the trade association for the province's 44 autonomous credit unions.

As prescribed by Manitoba's Credit Unions and Caisses Populaires Act, *CUCM manages liquidity reserves, monitors credit granting procedures and provides financial and other services to credit unions including banking, treasury, corporate governance, government relations, representation and advocacy, and legal services. As well, credit unions have access to payment and settlement systems, human resources, research, communications, marketing, planning, lending, product/service R&D and business consulting through CUCM. Manitoba credit unions jointly own CUCM and representatives from nine provincial districts sit on its board of directors. CUCM is financed through assessments and fee income derived through its operations.*

Credit Union Central *of* Manitoba

Annual Report 2009

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[illegible] *Chip Card Migration Project*
[illegible] *Concern for Community*
[illegible] *The Seven Co-operative Principles*
[illegible] *CUCM's Business Partners*
[illegible] *Management Discussion and Analysis*
[illegible] *Financial Statements*
[illegible] *Long Service*

CREDIT UNION CENTRAL of MANITOBA

Vision

CUCM serves Manitoba's credit unions by providing leadership and ensuring the delivery of high-value products and services that help them achieve their vision.

Mission

CREDIT UNION CENTRAL OF MANITOBA EXISTS TO

Help Manitoba's credit unions meet their business needs.
Assist Manitoba credit unions in providing services to their members.
Provide trade association services for Manitoba's credit unions.
Value/promote co-operative principles.

Corporate Values

RESPECT FOR PEOPLE

All individuals are highly valued and are treated equitably.
We value work-life balance.

INTEGRITY

We are reliable in our word, honouring commitments and promises.

EXCELLENCE

In all we do, we are committed to the highest standards of performance, competence, and efficiency.

SERVICE

We serve Manitoba credit unions and their members.
We steward the assets and affairs of the corporation for the benefit of Manitoba credit unions.

Guiding Principle

Learn from the past, excel in the present and prepare for the future.

If Manitoba credit unions were homeowners, the decision they will soon be asked to make is not whether they want to replace the windows or even retrofit with geothermal heating to make their home more efficient: the question will be whether they want to move into a new house being built for them in a new neighbourhood that we think they'll like.

The Prairie Central is a very big decision for Manitoba credit unions, one that requires a great deal of confidence and trust in the process and the people who built it. And for those people — the planners and negotiators who built the Prairie Central Business Strategy and will negotiate and draft the amalgamation agreement credit unions will vote on in 2010: the members of the board of directors and the project's steering committee — the responsibility is significant.

The members of the board of Credit Union Central of Manitoba (CUCM) have been aware of the magnitude of their responsibility from the very beginning of the process. Having participated in years of scenario planning related to CUCM's business model, they were well-positioned to evaluate whether CUCM could deliver on its vision and facilitate its role as the central service provider and trade association for Manitoba credit unions well into the future. Based on changes in the credit union system and the financial services industry, they determined that CUCM's current business model would eventually prove inadequate.

After key discussions between the CEOs and board executives of the three centrals in the summer of 2008, the board directed CUCM management to proceed beyond the discussion stage and work with teams from Alberta Central and SaskCentral to build the Prairie Central Business Strategy. Key CUCM resources from every department worked with their counterparts at the other centrals to build the components of the strategy for their functional areas. As part of the Steering Committee, CUCM's Chair, Vice-Chair and CEO met regularly with their counterparts to review the strategy as it evolved, and to deal with high-level questions and issues as they arose.

Communication — particularly with credit unions and CUCM employees — has been a priority throughout the process. As CUCM's owners and customers, Manitoba credit unions have been engaged throughout. Their input and feedback was gathered at key points in the process, at face-to-face meetings and through regular electronic communications, some of which marked the achievement of project milestones: sign-off on the strategy by the three CEOs in March 2009, by the Steering Committee in May and by the CUCM board in June. In the summer, CUCM's board executive and CEO met

The members of the board have been aware of the magnitude of their responsibility from the very beginning of the process.

with the provincial government and regulators to provide details of the strategy and review areas of legislation that would need to be amended to accommodate a multi-province central.

The Business Strategy document was released to CUCM staff August 26 and to credit unions September 1, followed by a formal presentation to credit unions at a special meeting September 9, where the CUCM Stand-Alone/Prairie Central comparison document was also distributed. This document, prepared at the request of the board, provided a side-by-side comparison of the projected impact of Manitoba credit unions having a stand-alone central in 2015 (likely the only provincial central in Canada) versus being part of a Prairie Central. Among the many conclusions drawn by the document is that CUCM would have fewer people providing fewer services to credit unions.

In the weeks following the strategy's release, it was discussed in detail at meetings with all nine districts, where credit unions were asked to bring forward their questions and concerns. That feedback was reviewed at the November system meeting, which the CEOs of SaskCentral, Alberta Central and Concentra attended in person to describe the feedback received by their organizations.

The Steering Committee subsequently produced and distributed an addendum to the strategy that addressed items on which they could agree, accompanied by an Ernst & Young due diligence and valuation summary of Concentra and a request of credit unions to indicate their support for proceeding to the drafting of a formal amalgamation agreement. In Manitoba, 41 credit unions (with a weighted vote of 87.19%) were in favour of proceeding, three (12.41%) were not. Saskatchewan and Alberta credit unions voted 95 per cent in favour. Although the results of the votes in principle represent a strong majority, a number of credit unions, including some that voted to proceed, registered concerns about the Concentra investment and the potential return on that investment. Additionally, some credit unions expressed concerns about the use of brokers by Concentra to obtain retail business.

Looking forward to the first quarter of 2010, the election of each central's four representatives to the inaugural Prairie Central board of directors and negotiations on the issues noted above will take place, followed by the development of a formal amalgamation agreement. If credit unions vote in favour of proceeding, the plan is for a Prairie Central CEO to be appointed in the second quarter, with implementation planning throughout 2010 and the formal launch of the Prairie Central to occur January 1, 2011.

This initiative has required a tremendous amount of time and effort from CUCM employees and members of the executive team; their dedication, over the past 18 months, to CUCM's vision of "providing leadership and ensuring the delivery of high-value products and services that help credit unions achieve their vision" — of representing the interests of Manitoba credit unions despite the uncertainty that a vote to proceed would create for them, personally — has never wavered.

There is still a great deal of work ahead, but, as I noted in these pages last year, the board would not have entertained the notion of taking credit unions in this direction if it did not believe that it was in the best interest of all Manitoba credit unions.

RUSSELL [illegible]
Chairman, Board of Directors

The board would not have entertained the notion of taking credit unions in this direction (Prairie Central) if it did not believe that it was in the best interest of all Manitoba credit unions.

Board of Directors

DISTRICT 1 [CHAIR]
Russell Fast
Board meeting attendance: 15/16

DISTRICT 8 [FIRST VICE-CHAIR]
Alexander (Sandy) Wallace
Board meeting attendance: 16/16

DISTRICT 9 [SECOND VICE-CHAIR]
Wayne McLeod
Board meeting attendance: 12/16

DISTRICT 2
Margaret Day
Board meeting attendance: [illegible]

DISTRICT 3
Rose Marie Couture
Board meeting attendance: 16/16

DISTRICT 4
Dave Abel
Board meeting attendance: 16/16

DISTRICT 5
Peter Enns
Board meeting attendance: 16/16

DISTRICT 6
Lee Gregory
Board meeting attendance: 12/13

DISTRICT 7
Don Farr
Board meeting attendance: [illegible]

Russell Fast *Sandy Wallace* *Wayne McLeod*

Rose Marie Couture *Dave Abel* *Margaret Day* *Peter Enns* *Don Farr* *Lee Gregory*

Committee Mandates

As described in the Message from the Chair, the board spent a great deal of time and effort in 2009 on the development, discussion, review and approval of the Prairie Central Business Strategy. In addition to work on the proposed amalgamation, the board continued to deal with the many reports, issues, committee tasks and other matters that regularly come before it in a normal year.

Throughout 2009, the board approved changes to CUCM's Corporate Policy Manual (as recommended by the Executive Committee), Lending Policy (as recommended by System Credit Committee, Level IV) and Investment Policy (as recommended by the Investment Committee). The board also approved a new Liquidity Policy for CUCM that was developed in consultation with the Investment Committee and Manitoba credit unions.

The board approved changes to CUCM's HR Policy that included an update to CUCM's Incident Reporting Policy, formerly known as the Whistle Blower policy. The changes include a broader range of illegal, unethical or improper behaviour that can be reported.

The board also continued its usual governance processes, including the annual CEO assessment, the Board self-assessment, and the quarterly board meeting assessments.

Assessments were also completed by the Audit and Conduct Review committees.

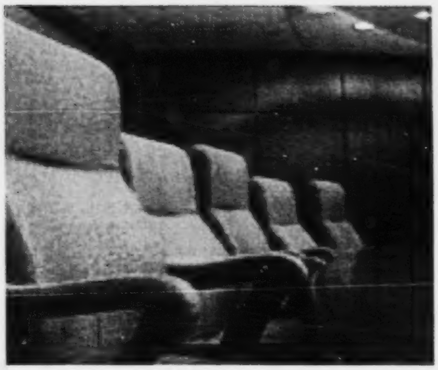
In 2009, the board authorized the release of the System Credit Review for consultation with the system. The review was undertaken as a result of discussions at the board's June 2008 planning session on governance.

Audit Committee

Meeting attendance

[CHAIR]	**Peter Enns**	7/7
[VICE-CHAIR]	**Dave Abel**	7/7
	Margaret Day	5/5
	Lee Gregory	5/5

The mandate of the audit committee is to review the annual audited financial statements with management and the external auditor before the financial statements are approved by the board. In its review, the committee considers compliance with regulatory requirements, accounting principles, and CUCM practices. It also reviews the non-audit services performed for the company by the external audit firm, any significant litigation claims, and establishes whether management or the external or internal auditors are aware of illegal or unethical activities that might affect the organization. With the internal auditor, the committee reviews any high-risk recommendations made to management on the subject of internal control, financial risk or process improvement.



Conduct Review Committee

The Conduct Review committee carries out duties required by the Cooperative Credit Associations Act. It applies CUCM's conflict of interest policies and procedures in reviewing conflict of interest situations and all transactions with related parties of CUCM.

Meeting attendance

[CHAIR]	**Peter Enns**	2/2
[VICE-CHAIR]	**Dave Abel**	2/2
	Margaret Day	1/1
	Lee Gregory	1/1

Investment Committee

The Investment Committee monitors the general, liquidity and liquidity pool investment policies of CUCM. It also deals with and reports on exceptions to policy, and reviews, approves and presents for board approval any investment opportunity pursuant to the General Investment Policy.

Meeting attendance

[CHAIR]	**Dave Abel**	3/3
[VICE-CHAIR]	**Rose Marie Couture**	3/3
	Peter Enns	3/3

System Credit Committee Level IV

This committee reviews all system loan applications with aggregate balances in excess of $15 million. It is also the final level of appeal for loans submitted to all system credit committee levels. In this role, it will consider appeals on loan applications that do not meet normal credit criteria but are of social or community significance or identify with the philosophy and purpose of credit unions.

Meeting attendance

[CHAIR]	**Sandy Wallace**	21/22
[VICE-CHAIR]	**Dave Abel**	22/22
	Rose Marie Couture	20/20
	Lee Gregory	12/12
[ALTERNATE]	**Margaret Day**	1/1

Executive Committee

The Executive Committee deals with policy issues, board planning activities, and goal setting for the CEO. It also provides direction, assistance and support on items that require committee review but which do not fall under the purview of any of the board's other committees.

Meeting attendance

[CHAIR]	**Russell Fast**	4/4
[FIRST VICE-CHAIR]	**Sandy Wallace**	4/4
[SECOND VICE-CHAIR]	**Wayne McLeod**	4/4

While much attention was focused, within our system, on the progress of the Prairie Central Business Strategy and, nationally and internationally, on the pace of economic recovery, the credit unions of Manitoba quietly continued to add to their membership bases, to their combined branch network and to their member loans, deposits and overall assets. They did this by doing what they do best: providing Manitobans with excellent financial products and services at highly competitive rates and by providing safe, secure places not only to conduct financial affairs, but also to participate in a community based co-operative system that is dedicated to people helping people help themselves.

Considering the economic downturn of 2008–2009, the performance of Manitoba credit unions in 2009 was very impressive, with deposit growth of 10.56 per cent, loan growth of 11 per cent and combined system asset growth of 9.83 per cent. The pace of structural change within the provincial system also continued at a steady pace, with two mergers involving six credit unions and a caisse populaire.

As described in our vision and mission statements, corporate values and guiding principle — as well as in our value proposition of High Quality, Superior Service, Excellent Price — the role of Credit Union Central of Manitoba (CUCM) is to support credit unions in their delivery of products and services to their members, and to do so in the most efficient and effective manner possible. As Russ noted earlier, for the management and board, this has meant a process of continual evaluation of CUCM services, delivery mechanisms and pricing. With the changes in the wider system and marketplace outside CUCM, the board and management determined that CUCM should look at changes to its current "stand-alone central" business model in order to be able to offer these services in the future.

As U.S. President Franklin D. Roosevelt famously observed as he primed the pump that pulled his country out of the Great Depression in the 1930s, there are many ways of going forward but only one way of standing still. CUCM is committed to moving forward, and it is encouraging to note that, in the consultations we have held from the beginning of this Prairie Central process, there has been an overwhelming acknowledgement by Manitoba credit unions that standing still is not an option for their central.

The Prairie Central is one way of going forward. It is a positive option, a good opportunity to build an organization from the ground up that is philosophically and operationally aligned with CUCM and Manitoba credit unions.

While the Prairie Central dominates the 2010 horizon, CUCM will continue to serve credit unions and complete the tasks and projects that are on its agenda.

The first of the Interac-mandated implementation deadlines on chip compliance are now less than a year away. Working in concert with colleagues at Credit Union Central of Canada (CUCC) and other centrals on the Co-operative Node (the primary network that processes credit unions' electronic transactions) and with Celero, Everlink, CUETS and other key resources, CUCM will continue to focus on helping Co-operative Node credit unions meet the Interac deadlines: 90 per cent of deposit-taking ATMs and 65 per cent of Member Card debit cards associated with the Co-operative Node must be chip compliant by the end of 2010. The various project teams associated with the effort are confident that we will meet those deadlines.

While the Prairie Central dominates the 2010 horizon, CUCM will continue to serve credit unions and complete the tasks and projects that are on its agenda.

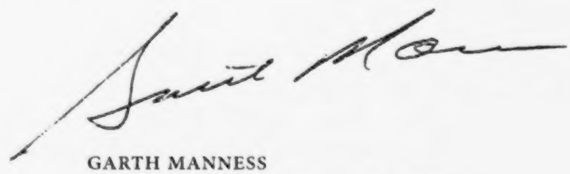
Technology will also drive a number of other key CUCM activities in 2010. The last of the credit union banking system conversions to eroWORKS — from CUBS in Manitoba and from other systems in Alberta and Saskatchewan — will be completed in 2010 by Celero, which will then convert CUCM to the new platform. As the number of eroWORKS credit unions increases, so, too, do the number of customers for CUCM's statement printing, assembly and mailing service — to which eStatements will be added in 2010, beginning with a pilot in March.

CUCM will choose and implement a new financial management system in 2010 and will complete, with the launch of the ePortal and Riskmetrics modules, the implementation of its treasury management system. By the end of the year, CUCM will have fully adopted into its accounting systems the International Financial Reporting Standards mandated by the Canadian Institute of Chartered Accountants.

The value of all of these efforts should stay with our organization whether it remains a stand-alone central or merges with Saskatchewan and Alberta to form the Prairie Central.

We have spent the last 18 months building a business strategy and, if it proceeds, we face another two years to see it through. It has required a tremendous amount of effort from our board — our steering committee members Russ Fast and Sandy Wallace, in particular. If credit unions say yes to the merger, the business strategy and negotiation phase will be replaced by even more discussion and planning, facilitation and preparation for the transition and implementation of the new entity.

It is an exciting time to be involved in the Manitoba credit union system. Big decisions and much work lie ahead, but it is all being done for the benefit of credit unions and the 566,000 Manitobans who have consciously chosen financial co-operatives over all the alternatives and who rightly expect the best from their credit unions and the most from the people who serve them.



GARTH MANNESS
President and Chief Executive Officer

Executive Management

(pictured left to right)

PRESIDENT *and*
CHIEF EXECUTIVE OFFICER
Garth Manness

VICE-PRESIDENT, BUSINESS SERVICES
Brian Peto

CORPORATE SECRETARY *and*
DIVISION MANAGER,
CORPORATE SERVICES
Dale Ward

CHIEF FINANCIAL OFFICER *and*
TREASURER
Gordon Menzie

SENIOR CONSULTANT TO THE CEO
Bob Lafond

DIVISION MANAGER,
BANKING & PAYMENT SERVICES
Wilson Griffiths

DIRECTOR, HUMAN RESOURCES
Pat Gifford

DIRECTOR, STRATEGIC SOLUTIONS
Louise Smith

DIRECTOR, LENDING SERVICES
Bernard C. Carling

DIRECTOR, RISK MANAGEMENT
Dina Long

DIRECTOR, TREASURY SERVICES
Louise Thiessen

2009 *in Review*

Dedicated to the success of Manitoba's credit unions

The benefits of CUCM's activities accrue to the organization's owners and key stakeholders — the credit unions of Manitoba. This section contains a sampling of some of CUCM's key activities and highlights from 2009.

Providing Leadership: Trade, Projects and Cooperation among Co-operatives

After launching the **treasury management system** (known as Opics) in November 2008, CUCM refocused its efforts and identified action items for 2009. Work processes were redesigned throughout the year as familiarity with Opics and its capabilities improved. By the latter half of 2009, Opics software patches had been installed, tested and migrated to the production environment, and issues that arose were being effectively dealt with by staff.

The Eagle-Eye module — which drives compliance monitoring and reporting for Opics — was installed in the testing environment in November and migrated to the production environment in December. Additional modules slated for installation in 2010 are ePortal, which will allow credit unions to view their investments online, and Riskmetrics, which will enhance Treasury's scenario simulations and *what-if* analysis capability.

Although challenging at inception, Opics implementation issues were resolved in 2009 and the new treasury system is providing the benefits promised: reduced reliance on spreadsheets, improved reporting and compliance, better security, and increased functionality and future capability. As learning and expertise on Opics continues and processes are redesigned and improved, and the functionality available through the new treasury management system continues to be leveraged, CUCM is well positioned going into 2010.

At the request of provincial centrals, Credit Union Central of Canada (CUCC) took on the task of coordinating and assisting credit unions and centrals in preparing for the transition to **International Financial Reporting Standards** (IFRS). Adopted by the Canadian Institute of Chartered Accountants (CICA), IFRS replaces Canadian generally accepted accounting principles with international standards.

Eighty-seven per cent of Manitoba credit unions accessed at least one of the IFRS project offerings in 2010

CUCC formed an advisory group with cross-Canada representation from centrals, credit unions of various sizes and subject-matter experts from Deloitte to design and implement IFRS Readiness resources. Detailed toolkits were prepared on the topics of disclosure, securitization, leasing, employee benefits, PP&E (property, plant and equipment), financial instruments, business combinations, loan loss provisions, implementation planning, board/audit committee, and diagnostics.

The group hosted webinars, issued communiqués, and prepared Frequently-Asked Questions documents from the credit union perspective to assist in making the transition to IFRS. Eighty-seven per cent of Manitoba credit unions accessed at least one of the IFRS project offerings in 2009.

Although IFRS comes into force for credit unions in 2011, financial statements contain two years (current and previous) of history. Therefore, in 2010, credit unions will have to make their IFRS elections to create the necessary comparative financial statements for 2011. As well, credit union regulators — the Office of the Superintendent of Financial Institutions (OSFI) and the Credit Union Deposit Guarantee Corporation of Manitoba (CUDGC) — will be finalizing their IFRS positions in early 2010. Accordingly, CUCC will continue the IFRS Readiness project with Phase Two in 2010, which will continue the momentum and leverage the work from 2009 with technical and practical/strategic webinars, communiqués, single subject projects and other project offerings that may be required.

In May, CUCM assumed responsibility for the **Credit Union Master Bonding Program** previously managed by CUDGC. Work undertaken in 2009 included updating the committee's terms of reference, which were approved by CUCM's board in June of 2009, representing CUCM at the Master Policy Holder meeting in June 2009, and representing CUCM at the National Risk Management Committee meeting in September 2009. The Bonding Committee of the board provides counsel to CUCM resources concerning product and pricing issues encountered by credit unions.

In its role, CUCM represents Manitoba credit unions in the procurement of insurance products, facilitates training and education on insurance and risk management activities, and represents the voice of Manitoba credit unions concerning service and policy interpretation. In 2009, CUCM promoted three webinars on fraud management to credit unions on behalf of SaskCentral, and hosted deposit services training.

As the Master Policy Holder, CUCM began serving as the liaison between credit unions and The Credit Union Bonding Program (TCUBP), and managing the distribution of fraud alerts and risk management information. Under CUCM, all credit unions were encouraged to join the Credit Union Office for Crime Prevention and Investigation (CUOCPI), which allows credit unions to share important information about fraudulent activity in their trading areas, in compliance with privacy legislation. Acting as a liaison between law enforcement, CUCC, Central 1's Fraud Alert System and credit unions, CUCM helped streamline processes required to investigate crime and provided credit unions with information about services designed to help mitigate losses from debit card skimming.

Typically, the **Democratic Control Review Committee** (DCRC) readjusts the provincial democratic model following a merger, particularly when it creates a particularly large credit union or credit unions from different districts. Following the Access Credit Union merger in July, the process of adjusting the model was set aside, pending the results of the Prairie Central amalgamation vote in 2010, as was the work being done to explore a longer-term governance model. If the Prairie Central does not move forward,

Strategic Solutions and Human Resources worked with a change management partner throughout the year to bring change readiness workshops to CUCM employees and change leadership training to managers

these items will be resurrected for discussion with DCRC and the system.

Discussion at the provincial system's **Law Review Committee** over the past year focused on matters related to changes to the *Credit Unions and Caisses Populaires Act* and Regulations that would be required to facilitate the Prairie Central if it is approved. Potential changes revolve around recasting the definition of a central, the inclusion of a continuance provision, and other matters that would allow CUCM to merge into a Prairie Central.

A primary focus of CUCC's **Legislative Affairs Committee** in 2009 dealt with the development of a consultation paper and policy position on the concept of a federal charter for credit unions. Following broad-based consultation with credit unions across Canada, the CUCC board set out a position in support of increased federal powers for credit union organizations. The position is based on three principles: that a federal charter for credit unions must be useful, attractive and accessible; a federal charter for credit unions must maintain the distinctiveness of credit unions as member-owned, community-focused, full-service financial institutions; and a federal charter for credit unions must not disrupt the stability and continuing success of the Canadian credit union system. While CUCC suggested the best way to achieve federal powers for credit unions was to amend the federal *Co-operative Credit Associations Act* (CCA Act), the Department of Finance indicated a preference to pursue changes through amendments to the *Bank Act*.

Focusing internally on the potential for major change, Strategic Solutions and Human Resources worked with a **change management** partner throughout the year to bring change readiness workshops to CUCM employees and change leadership training to managers of people. The program included a network of non-management change facilitators, as well as more detailed change methodology training for leaders at various levels. For employees, key competencies for personal change management were identified, as were suggestions for incorporating change competencies into their performance planning.

Initial plans to build a full people strategy for CUCM were put on hold pending the outcome of the Prairie Central vote. Instead, a number of mini projects ensured that attention remained focused on this strategic priority. Among them were raising employees' level of awareness of CUCM's employment equity program and broadening salary comparisons to ensure CUCM's compensation remains market-competitive. Ongoing work continued in the areas of succession planning, annual employee satisfaction surveys, and representing the Manitoba system at career fairs.

Human Resources also worked to strengthen the company's strategic capabilities through leadership. Gaps between the current and future desired states of CUCM's internal Leadership Development Program were identified and the program was redesigned to shift emphasis to exposure and gaining experience, which complemented the previous focus on learning and partnering. Participation grew in both the emerging (new leaders) and evolving (experienced leaders) groups.

Delivering Value to Credit Unions

Banking & Payment Services has been supporting the migration of Manitoba credit unions to the eroWORKS banking system and, as they convert, bringing new customers onto its centralized statement service.

The service, which involves the rendering, printing, insertion and mailing of member statements and cheque images, saves credit unions significant time and effort, as they no longer have to manually handle statements

at their locations. Eleven credit unions are now using the statement service, with fourteen more scheduled to join in 2010.

Electronic statements, which will be added to the service offering in 2010, will give members the choice of receiving an eStatement in addition to or instead of their printed copy. And while eStatements represents the most environmentally friendly option, CUCM continues to print its customers' member statements on paper made of 100% post-consumer recycled content.

In addition to providing significant editing and design work on the Prairie Central Business Strategy proposal, **Corporate Services** resources supported major meetings and system dialogue forums that took place over the course of 2009, including CUCM's Annual General Meeting and Convention (March 26–27), CUMAM Conference (October 21–23), Executive Forum (November 20–21), system meetings in May and November, and a special meeting to overview the Prairie Central Business Strategy in September.

The division played a key role in supporting CUCM's Business Continuity/Disaster Recovery and pandemic planning process and took on increased responsibilities related to the management of CUCM's relationship with Celero and the Master Bonding Program. The department also produced CUCM's major publications and continued to provide credit unions with marketing consulting and creative services, communications consulting, and print and procurement services through Printing & Supply, whose annual sales grew in 2009.

A review of the **System Credit Committee** (SCC) that started in 2008 continued in 2009. The purpose of the review is to define a new process for SCC that still meets the requirements of the *Credit Unions and Caisses Populaires Act* but which avoids potential conflict for CUCM board members.

After meeting with stakeholders, including representatives of SCC, CUDGC and credit unions, a new methodology for setting Discretionary Lending Limits (DLLS) was presented to the CUCM board in late November. Following credit union consultation, a final recommendation will be presented to the board in 2010.

With a representative on CUCC's agricultural lending sub-committee, SCC has been involved in meetings and discussions concerning AgriInvest, Farm Credit Canada, BDC (Business Development Bank of Canada), EDC (Export Development Canada) and the rollout of the Federal Hog Industry Loan Loss Reserve program.

Credit union–focused activities of the **Human Resources** (HR) department in 2009 included a benefits and working conditions survey of Manitoba credit unions that was more comprehensive than in previous years. The executive and non-executive salary surveys, moved to the web for ease of input, involved a partnership with all provinces outside Quebec, resulting in salary surveys that were more robust by virtue of the inclusion of more positions and data from the banking industry.

Employee relations and assistance on general human resources issues are the services most frequently used by credit unions, followed by search and recruitment, compensation and benefits projects, employee satisfaction surveys, job evaluations, assessments, and departure management. HR consultants worked with small, medium and large credit unions on seventy-seven projects and offered two new programs in 2009 — establishing workplace safety and health committees, and respectful workplace training. The department continues to supply Celero Solutions and Everlink Payment Services with a full suite of human resources, payroll, benefit and employee records solutions from its office in Winnipeg.

Strategic Solutions is a team of research, planning, consulting and project management professionals with

solid skill sets developed through a diversity of business backgrounds and experiences. The department delivers a wide variety of engagements for credit unions and CUCM.

In 2009, Strategic Solutions worked with credit union boards and management on numerous strategic planning, change planning, transition support and process redesign projects.

Supporting credit unions' information needs, the department conducted over thirty member and employee satisfaction surveys and board surveys, mostly using the online CUAdvisor tool, as well as completing the Community Contribution survey for CUCC.

At the request of the CUCM board, Strategic Solutions consulted with credit unions of all sizes, and with regulators, on a full review of policy and procedures related to Discretionary Lending Limits and the current central adjudication process.

Strategic Solutions worked to enhance CUCM's coaching-based Credit Union Internal Audit service by developing a Lending Audit model to focus on lending process quality. The department began developing, with regulators and credit unions, an updated approach to asset and liability management reporting, and to the way credit unions can analyze and report on interest rate vulnerability.

In the area of agricultural consulting, the department presented a farm succession workshop for credit unions and their ag members, and delivered detailed Agricultural Updates in 38 communities in the West. Strategic Solutions also supported CUSOURCE with 32 days of advanced commercial and agricultural lending instruction nationally. The department conducted detailed policy analysis for CUCM's board and members on agricultural policy matters, including Country of Origin Labeling.

Strategic Solutions facilitated the eroWORKS user group to provide advocacy in resolving key implementation issues and to support credit unions in meeting their reporting obligations, post-conversion. To increase credit union planning and reporting capacity, the department focused on levering the use of Profit-Stars software, now in use at numerous credit unions, by developing some regulatory and scenario reporting and bringing in advanced and refresher training.

Strategic Solutions and HR contracted with the Manitoba Government's Co-operative Development Services branch to create a complete curriculum for groups that want to start co-ops in Manitoba. The team also convened a panel discussion about student credit unions and completed a manual documenting the process of opening one.

CUCM is a member and participates on the steering committee of the CUCC Co-operative Node (formerly the National Node), and serves on its ATM, migration and communications subcommittees. CUCM resources dedicated to this project are working with Manitoba credit unions, CUCC, other centrals and key suppliers — notably CUETS, Everlink and Celero — toward the goal of rolling out ATM and MEMBER CARD debit card chip technology in adherence with Interac-mandated chip compliance deadlines.

As part of its efforts, CUCM engaged representatives of eroWORKS, Ovation, Infonancial, Fincentric and Telepop to help all credit unions navigate through the migration process and, in the case of non-eroWORKS credit unions, the migration from the Manitoba regional switch to become direct connectors with Everlink by December 2010.

In the area of ATMs, compliance-related upgrades and replacements to become chip ready began in July. By the end of 2009, 75 per cent of ATMs had been upgraded to chip-ready status and Celero's certification testing of ATMs with CUETS and Everlink is scheduled to begin in the first quarter of 2010. Ninety per cent of deposit-taking ATMs must be chip-ready by the end of 2010; 100 per cent by 2012.

In addition to ATMs and banking system readiness, the other major component in chip migration is the manufacture and distribution of the chip debit cards themselves. By the end of the year, CUETS and Everlink were fully engaged with CUCC to schedule group processors for the deployment of chip debit cards to ensure that the Interac requirement of 65 per cent card conversion by December 31, 2010 is met. The 100 per cent card compliance deadline is December 31, 2012.

Chip migrations at two pilot eroWORKS credit unions, Arborg and Assiniboine, are scheduled to begin in the second quarter of 2010, after which conversions will follow a timetable to be devised early in 2010. Some credit unions have undertaken activities in advance of their rollout to ensure their full readiness to begin issuing cards.

Cambrian Credit Union, which is piloting the migration for non-eroWORKS credit unions, issued its first test chip cards and enabled three ATMs for chip at the beginning of February 2010.

Activities on the communications subcommittee centred on advising credit unions of activities in other areas of the project. Communications and marketing activities will be ramped up in 2010, once migration schedules are more clearly defined, to assist credit unions in promoting and explaining chip cards to their members.

Spotlight on the 7th International Co-operative Principle:

Concern for Community

Credit Union Central of Manitoba's corporate values are aligned with the Seven International Co-operative Principles, but when it comes to the seventh principle, Concern for Community, CUCM's actions are anything but "corporate." Many of the initiatives through which the company expresses its concern for community, and thus its role as a good corporate citizen, originate with employees. The charities employees support are those that CUCM supports, through dollar-for-dollar matching of employee donations. When employees volunteer in the community, they often do so in the name of CUCM. In short, CUCM's employees raise the company's profile in Winnipeg.

For example, the CUCM Staff Club exists to "encourage a better rapport and morale between staff members." It is much more than a social committee, though, because in the process of hosting monthly lunches, on-line raffles and other events, it raises money for a variety of community outreach organizations and charities throughout the year.

An acrylic painting by a participant in Siloam Mission's Expressive Arts program hangs in the lobby at CUCM (detail)

And each year, CUCM employees pull together in the annual Dragon Boat race down the Red River. A staple event in most North American cities, Dragon Boat raises millions for cancer research every year. The 2009 event was the tenth race in as many years for CUCM's team.

CUCM's biggest event, though, is the All Charities Campaign. Timed to coincide with the United Way of Winnipeg's annual fundraising drive, employees look forward to this two-week fall campaign of speakers, special events, lunches and contests. Through the United Way's Leadership Giving program, CUCM's leaders are encouraged to lead by example in their annual personal contributions.

CUCM makes a deliberate effort to expose employees to the level of need in the community and to the various agencies working to better the odds for people whose circumstances have put them at a disadvantage. In addition to presentations during the All Charities Campaign, every quarterly corporate staff meeting opens with a speaker from one of the city's many organizations doing work in areas that CUCM employees themselves identified as being important, through their responses to a United Way Urban Exchange survey: crime, youth crime, opportunities for Aboriginal people, poverty, and downtown revitalization.

Employees have responded to these efforts, as evidenced by their support for the United Way and other charities: the percentage of employees contributing to charity through the All Charities Campaign has gone from 34% in 2007 to 68% in 2009, with contributions increasing by 56% over the same period. CUCM has received the United Way's Quantum Leap award in four of the last five years, including 2009.

CUCM is highly supportive of all of its employees' efforts in the community. They are encouraged to leave their desks (occasionally) to serve others where need exists. In the last couple of years, employees have lent a hand at Siloam Mission, Oyate Tipi and South Winnipeg Family Information Centre, and volunteered to literally Clean Up with the Downtown BIZ (Business Improvement Zone). The work of well-known Manitoba artists, rented from the Winnipeg Art Gallery, hangs throughout CUCM, but so, too, does the work of lesser knowns — clients of Siloam Mission's art program who have found an outlet for self-expression and healing through art.

The Co-operative Principles

The Seven International Co-operative Principles are guidelines by which co-operatives put their values into practice. Part of CUCM's mission is to promote these principles.

First Principle: Voluntary and Open Membership

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

Second Principle: Democratic Member Control

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner.

Third Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

Fouth Principle: Autonomy and Independence

Co-operatives are autonomous, self-help organizations controlled by their members. If they enter to agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

Fifth Principle: Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public — particularly young people and opinion leaders — about the nature and benefits of co-operation.

Sixth Principle: Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

Seventh Principle: Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

Celero Solutions

In 2009, Celero Solutions and its team of nearly 350 employees in Calgary, Regina, Saskatoon and Winnipeg continued to make progress towards achieving its vision of becoming "the leading provider of technology solutions to the financial industry others aspire to be... people want to work for... and clients know they can rely upon." Celero focused on execution in 2009, some of the highlights of which appear below.

- Celero completed 40 Project Meta conversions including 10 in Manitoba in 2009. In all, 70 credit unions across Alberta, Saskatchewan and Manitoba have converted to eroWORKS as part of Meta, and each of them opened for business following their implementations as planned, including two of Canada's largest credit unions — Steinbach Credit Union in Manitoba and Innovation Credit Union in Saskatchewan, which both migrated to the banking system in November 2009.

- In an effort to ensure credit unions become proficient users of eroWORKS more quickly following implementation, Celero undertook several post-conversion improvement programs. Over the summer and fall, Celero's Consult, Assess, React, Enable (CARE) Program completed 14 on-site credit union assessments, addressed over 250 issues, and closed 110 Pivotal tickets. Through the inter-provincial reports initiative, CARE recommended 63 eroWORKS Digital Report View and Archive (DRVA) report changes, which are currently being implemented.

- Celero strengthened and expanded its existing relationship with Open Solutions by becoming the exclusive value-added reseller of their products and services in Alberta, Saskatchewan and Manitoba. Celero received access to view proprietary TCCUS code (the system eroWORKS is built on) to aid Open Solutions in triaging and resolving client issues with eroWORKS in a more timely fashion, as well as make recommendations to customize the banking product for Prairie credit unions. The agreement also enabled Celero to establish a roadmap to take the three Prairie centrals and Concentra Financial from their legacy banking systems to eroWORKS.

- Celero introduced several new services in 2009: eroWORKS Optimize Training, Reporting and Consulting; eroSERVE Internet Banking Mobile Services and Increased Authentication; eroWORKS Hot Carding Services; and eroSERVE Network Application Trouble Detection and Analysis Services (NATDAS).

- The inaugural Celero Conference was held in Calgary March 15–17 and drew the participation of nearly 150 representatives from 50 credit unions, provincial centrals, vendors and partners.

- Celero announced a five-year partnership with IBM and transitioned management of its data centre operations to the global leader. As the partnership evolves, Celero will be able to offer even greater sleep-at-night system reliability and the flexibility to scale its infrastructure to meet clients' business needs. Thanks in part to the partnership, considerable investment was made in Celero's physical data centres. Upgrading the data centres ensures clients continue to be on equal footing with all major financial institutions in Canada, and will provide Celero even stronger capabilities to manage downtime risks and system failures.

Among Celero's priorities for 2010: complete Project Meta, including retiring three legacy systems; optimize eroWORKS adoption; realize growth opportunities; strengthen its partnership with IBM; continue Top Employer efforts; and effectively manage its financial performance.

EVERLINK®
SERVICES

In 2009, Everlink continued to position itself as a leading provider of electronic payment services in the financial services industry. From a financial perspective, Everlink had another excellent year in 2009, over-achieving budget by 9% as a result of both direct action and taking advantage of opportunities. Operating expenses were contained — under budget for 2009 and slightly less than 2008 — allowing Everlink to achieve 130% of its net income target for 2009. Cash reserves were also increased by 20%.

A 10-year Master Services Agreement (MSA) was renewed for the company's credit union business. This provides Everlink with a solidified revenue stream for the term of the agreement. The MSA participants represent 75% of Canadian credit unions by number and 65–70% by volume. As a part of the MSA negotiations, Everlink committed to delivering a number of ATM Managed Services (AMS) components within the first 24 months of the agreement. Enhanced ATM monitoring (including incident management) has already been delivered with full service management and a turnkey option scheduled for delivery in Q1 2010 and asset management and cash management scheduled for Q2.

Everlink established its presence in the POS-ISO market via the re-engagement of its two major Independent Sales Organizations (ISOs), fulfillment of one ISO that was signed in 2008 and the signing of six more ISOs in 2009. Another is imminently pending. Everlink recently concluded a Master Credit program with Chase Paymentech, paving the way for increased POS-ISO business as well as participation in merchant discount rate revenue.

From a chip readiness perspective, Everlink has materially completed the EMV uplift and certifications for shared ATM services, thereby facilitating its clients' requirement to meet Interac compliance deadlines. These accomplishments have helped Everlink gain the reputation within the industry of being leaders with respect to chip technology.

Everlink has expanded its partnership with Interac-Acxsys as their preferred international gateway provider, signing both PULSE and China Union Pay (CUP) in 2009 and laying the groundwork for another four to six similar deals in 2010.

Everlink has dramatically up-skilled its internal capabilities throughout 2009 in terms of breadth of experience and depth of expertise. This has contributed to solidifying Everlink's positive reputation and presence in the Canadian payments processing market space, and helped in the development of numerous business opportunities with potential partners and customers.

During the last quarter of 2009, Everlink was asked to respond to multiple requests for proposal (RFPs) and is confident that several of these will translate into further expanded business in 2010.

Management Discussion and Analysis

The Management Discussion and Analysis (MD&A) provides an historical and prospective commentary of CUCM through the eyes of management. CUCM's primary activities and Manitoba credit union historical statistics are outlined on page 2 and the inside front cover of this annual report, while the mission, vision, corporate values and guiding principle are found on page 4. These elements, together with this MD&A, complement and supplement the financial statements.

A Focus on Capital and Liquidity

Not unlike many corporations recovering from the financial crisis that characterized the last half of 2008, CUCM found 2009 to be a year of multi-faceted challenge. For CUCM, a significant challenge that was related to the volatility in financial markets was its fair-value capital adequacy shortfall at year-end 2008. With the adoption of fair value reporting of financial instruments (January 1, 2007), unrealized gains and losses flowed through CUCM's statement of operations which, in 2008, resulted in a negative valuation of member deposits and a fair-value decline in corporate capital.

CUCM's response to this challenge was direct and thorough. To safeguard against the risk of unexpected loss of capital due to fair market valuation calculations, and the unintended deterioration of capital adequacy, CUCM undertook a number of measures in 2009 to strengthen and secure its capitalization.

- The board maintained a "just in time" process for calling capital each month
- The board reduced the operating target for the borrowing multiple from 17.5:1 to 16.5:1
- The board approved a formal liquidity policy, which was submitted to OSFI
- Management increased the frequency of forecasting of capital requirements
- Management reviewed and adjusted CUCM's member deposit pricing policy to improve liquidity
- Management did not transact any new interest rate swaps in 2009

Over the course of 2009, CUCM increased and maintained higher levels of capitalization. Consequently, the higher capital and liquidity levels, coupled with investment opportunities, drove increased returns for financial margin despite a lower interest rate environment in 2009.

Corporate — Financial Affairs: Effect of the Global Credit & Liquidity Crisis on CUCM

As the severity of the financial crisis grew in late 2008, the Bank of Canada deployed monetary tools that took two broad forms: injecting unprecedented amounts of liquidity into the financial sector and slashing the cost of borrowings. Together, these actions enabled financial institutions to tap into alternative sources of funds rather than continue to issue debt in a hostile investment environment. This gave the markets time to digest the increased supply of liquidity in the market. And as it became increasingly clear that global central bankers would do whatever was necessary to support the financial system, investors regained confidence and returned to the market. (2009 ended with the strongest rebound in stock markets in several decades.) The liquidity also allowed banks to return to their traditional business of lending, which in time led to lower rates in general.

Manitoba credit unions continued to seize the unique opportunities that arose during the credit crisis to increase lending to consumers and local businesses and further grow their market share in the process. At the same time, they were able to continue to grow their

deposit base despite record-low interest rates. System liquidity ended the year at 12 per cent, slightly lower than the 2008 level of 13.1 per cent. While this is lower than the level prior to 2008, it is still substantially higher than the eight per cent minimum statutory requirement. The decline reflects the fact that some credit unions reduced their holdings of excess liquidity, having seized some unique lending opportunities that arose from the financial crisis. Credit union lending grew by 11 per cent from December 2008 to December 2009. Over the same period, their deposit base grew by 10.56 per cent.

Throughout 2009, CUCM continued to participate in one of the programs by which the Bank of Canada supplied low-cost, short-term liquidity to the financial sector. CUCM used these funds to increase the system's liquidity so that, in the event that system loan demand outpaced deposit growth, it could avoid having to sell investments at depressed prices. Additional funds were borrowed and invested short-term to take advantage of depressed market prices, which enhanced overall portfolio returns.

Without exception, all investment holdings at CUCM continue to be highly rated and to pay interest and be repaid in full by their legal maturity dates. In response to the fair value loss of capital in 2008, CUCM issued additional share capital in 2009 to meet its capital ratio requirements. CUCM noted at the time that this fair value loss would reverse when markets recovered or when the investments matured and were repaid, whichever happened first: December 2009 month-end results showed a year-to-date improvement of $79.9 million in fair market values.

Just as the credit crisis generated new opportunities for Manitoba credit unions, CUCM seized investment opportunities that have enabled the payout of record returns — BA + 82.3 basis points (bps) to December 30, 2009 — to credit unions on their short-term deposits. In addition, credit unions received an incremental 16.5 bps on their longer-term deposits (which were already priced at market rates) and an additional 21.9 bps on their excess liquidity deposits.

Regardless of whether our economy continues on its current path of economic recovery or we experience a double dip (a return to recessionary conditions), CUCM remains confident in the high quality of its underlying investments, which have thus far shielded it from defaults.

Looking Forward

Although it appears the worst of the financial crisis is over, CUCM is not returning to business as usual; rather, it sees the lessons learned from the crisis as an opportunity to further strengthen its operational practices.

Global central bankers and regulators are exercising more due diligence, post-financial crisis, and will remain vigilant, having viewed the crisis as a wake-up call. OSFI is requiring that Canadian financial institutions develop formal liquidity policies and test their ability to withstand future potential market stress. CUCM undertook a project in 2009 to comply with these new requirements. In 2010, CUCM will be required to assess its stress testing practices and develop applicable action plans to comply with these requirements.

2010 will be the final year of CUCM preparing its financial statements under Canadian Generally Accepted Accounting Principles (GAAP) and will see the introduction of International Financial Reporting Standards (IFRS), which come into effect January 1, 2011. Work has been ongoing for IFRS planning and CUCM is ready to prepare 2010 comparatives under the new standards for its 2011 financial statements.

In late 2010, CUCM, Alberta Central and SaskCentral will install eroWorks as their internal banking systems, which will in turn necessitate the implementation of a new general ledger system that will link into eroWorks.

Other important system initiatives in 2010 will include the implementation of an ePortal solution in Opics (CUCM's treasury system implemented in late 2008), which will allow credit unions to perform treasury and foreign exchange transactions directly with CUCM.

Finally, the proposed amalgamation of the centrals of Manitoba, Saskatchewan and Alberta remains a significant future event. Through the transition and implementation stages of the Prairie Central that will begin in 2010, if the proposal is approved, CUCM will continue to plan and anticipate resource requirements to ensure that service to Manitoba credit unions remains seamless.

CREDIT UNION CENTRAL *of* MANITOBA

MANAGEMENT REPORT

February 25, 2010

The accompanying financial statements were prepared by Management, which is responsible for the integrity and objectivity of the data presented, including amounts that must necessarily be based on judgements and estimates. The financial statements were prepared in conformance with Canadian generally accepted accounting principles, and in situations where acceptable alternative accounting principles exist, Management selected the method that was thought to be most appropriate in the circumstances. Financial information appearing throughout this Annual Report is consistent with the financial statements.

In discharging its responsibilities for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, Management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

Ultimate responsibility for financial reporting to our members rests with the Board of Directors. The Audit Committee, which is appointed by the Board of Directors, meets at least twice a year to review, with Management and the appointed external auditors, the scope of the annual audit and the final audited financial statements.

The financial statements have been examined by PricewaterhouseCoopers LLP, whose report expresses their opinion with respect to the fairness of the presentation of the statements.

GARTH MANNESS
President and
Chief Executive Officer

GORDON MENZIE
Treasurer

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February 25, 2010

Auditors' Report

To the Members of
Credit Union Central of Manitoba

We have audited the consolidated balance sheet of **Credit Union Central of Manitoba** as at December 31, 2009 and the consolidated statements of operations, comprehensive income and reserves and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Winnipeg, Canada

Consolidated Balance Sheet

as at December 31, 2009

in thousands of dollars	2009	2008
Assets		
Liquidity pool [note 2]	2,230,735	1,930,282
Derivative financial instruments	3,263	9,505
Intermediation pool [note 3]	157,434	192,935
Service related [note 4]	34,554	34,321
	2,425,986	2,167,043
Liabilities		
Members' deposits	1,794,383	1,753,643
Obligations under repurchase agreements	385,461	241,284
Derivative financial instruments	47,879	69,916
Accounts payable	9,689	9,237
	2,237,412	2,074,080
Members' Equity		
Share capital [note 5]	176,629	154,629
Reserves (deficit)	11,945	(61,666)
	188,574	92,963
	2,425,986	2,167,043

Approved by the Board of Directors

DIRECTOR

DIRECTOR

Consolidated Statement of Operations, Comprehensive Income (Loss) and Reserves (Deficit)

for the year ended December 31, 2009

in thousands of dollars	2009	2008
Financial revenue		
Liquidity pool	60,274	82,181
Intermediation pool	6,775	7,221
	67,049	89,402
Cost of Funds	49,511	73,320
	17,538	16,082
Unrealized gains (losses) on instruments held for trading [note 11]	79,931	(71,074)
Financial margin	97,469	(54,992)
Share of Celero's income (loss)	(4,553)	266
Rental income — net	235	—
Net operating recovery (expense) [note 7]	(219)	473
	(4,537)	739
Income (loss) before credit union patronage distribution	92,932	(54,253)
Credit union patronage distribution		
Financial margin distribution	6,611	6,807
Distribution (recovery) of Celero's income (loss)	(4,553)	266
	2,058	7,073
Income (loss) before income taxes	90,874	(61,326)
Income Tax Expense (recovery) [note 8]	10,689	(7,477)
Net income (loss) and comprehensive income (loss) for the year	80,185	(53,849)
Reserves (deficit) — Beginning of year	(61,666)	(1,574)
Dividends — net of related income tax savings [note 8]	(6,574)	(6,243)
Reserves (deficit) — End of year	11,945	(61,666)

Consolidated Statement of Cash Flows

for the year ended December 31, 2009

in thousands of dollars	2009	2008
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	80,185	(53,849)
Items not affecting cash		
Unrealized (gains) losses on instruments held for trading	(79,931)	71,074
Gain on sale of intermediation pool asset	(2,414)	—
Amortization	1,519	1,291
Future income taxes expense (recovery)	9,910	(8,533)
	9,269	9,983
Net change in other receivables, prepaids, inventories and accounts payable	(8,570)	3,913
	699	13,896
Investing activities		
Increase in liquidity pool assets — net	(227,952)	(128,796)
(Increase) decrease in derivative financial instruments — net	13,180	2,742
(Increase) decrease in intermediation pool assets — net	37,915	(69,730)
Acquisition of capital assets	(2,640)	(2,147)
	(179,497)	(197,931)
Financing activities		
Increase (decrease) in members' deposits — net	21,631	(75,578)
Increase in repurchase agreements	144,177	241,279
Increase in share capital [note 5]	22,000	51,401
Dividends — net of taxes	(6,574)	(6,243)
	181,234	210,859
Decrease in overdraft	2,436	26,824
Overdraft — Beginning of year	(13,577)	(40,401)
Overdraft — End of year	(11,141)	(13,577)

in thousands of dollars	2009	2008
Supplementary Cash Flow Information		
Income tax refund	158	497
Income tax instalments	—	178

[1] Significant accounting policies

BASIS OF PRESENTATION

The consolidated financial statements of the Organization have been prepared in accordance with the *Co-operative Credit Associations Act*, which requires them to be in accordance with Canadian generally accepted accounting principles, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). The significant accounting policies used in the preparation of the financial statements are summarized below.

BASIS OF CONSOLIDATION

These consolidated financial statements include the accounts of the Organization and its wholly owned subsidiary, 317 Donald Inc., after the elimination of inter-company accounts and transactions.

RENTAL INCOME

The Organization entered in to a lease agreement with a third party tenant beginning in 2009 therefore its operations, as they relate to the external tenant, are disclosed separately in the statement of operations.

FINANCIAL INSTRUMENTS

As specified by OSFI, financial instruments, other than those required to be designated as held for trading, may be designated on a voluntary and irrevocable basis as held for trading provided that such designation:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the related gains and losses on different bases; and
- allows for reliable measurement of the fair value of the financial instruments designated as held-for-trading.

The Organization has met the above requirements and has elected to designate certain of its financial instruments as held for trading as detailed below.

a) Liquidity pool

Investments designated as held for trading

These investments are recorded at their fair value initially using the trade date for recognizing transactions and thereafter based on quoted prices in an active market. Interest income earned, amortization of premiums and discounts, dividends received as well as realized gains and losses are included in financial revenue — liquidity pool using the accrual basis of accounting. Gains and losses arising from subsequent market valuations are recognized in the consolidated statement of operations as unrealized gains (losses) on instruments held for trading.

Investments designated as held to maturity

These investments, which are matched to equity, are recorded at their amortized cost using the trade date for recognizing transactions. Interest income earned as well as dividends received are included in financial revenue — liquidity pool using the accrual basis of accounting. Accrued interest receivable is included with the corresponding principal balance. Other than temporary declines in market value are recognized as they occur in the determination of income. The Organization assesses whether a financial asset is other-than-temporarily impaired by assessing whether there is a significant or prolonged decline in fair value and objective evidence of impairment exists such as financial difficulty, breach or default of contracts, probability of bankruptcy or other financial reorganization.

Cash and cash equivalents

Cash and cash equivalents consists of cash, deposits and overdrafts with other financial institutions.

Transaction costs

All transaction costs are expensed as incurred.

b) Derivative financial instruments

Interest rate swap agreements

The Organization enters into interest rate swap agreements in order to manage its exposure to changes in interest rates.

Additionally, the Organization, in its role as a financial intermediary, enters into interest rate swap agreements and index-linked swap agreements with its member credit unions. Concurrently, the Organization enters into a counter agreement with a third party financial institution.

These agreements are recorded at their fair value based on a discounted cash flow methodology using observable market inputs with changes in those fair values recognized as unrealized gains (losses) on instruments held for trading. Interest income on the receiving leg of the swap is included in financial revenue — liquidity pool and conversely interest expense on the paying leg of the swap is included in cost of funds using the accrual basis of accounting. The fair value of interest rate swap agreements is recorded in derivative financial instrument assets or liabilities, as appropriate, on the consolidated balance sheet.

Foreign exchange forward rate agreements

The Organization enters into foreign exchange forward rate agreements in order to manage its exposure to changes in foreign exchange rates.

Additionally, the Organization, in its role as a financial intermediary, also enters into foreign exchange forward rate agreements with its member credit unions. Concurrently, the Organization enters into a counter agreement with a third party financial institution.

Foreign exchange forward agreements are recorded at their fair value based on a discounted cash flow methodology using observable market inputs with changes in those fair values included in financial revenue — liquidity pool. The fair value of foreign exchange forward agreements is recorded in derivative financial instrument assets or liabilities, as appropriate, on the consolidated balance sheet.

Embedded derivatives

A derivative instrument may be embedded in another financial instrument (the host instrument). Embedded derivatives are treated as separate derivative financial instruments when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivatives are the same as those of a stand-alone derivative financial instrument, and the combined contract is not designated or classified as held for trading. Embedded derivatives would be accounted for at fair value on the balance sheet and changes in fair value would be recorded in the statement of operations. The Organization determined that no embedded derivatives are required to be separated from the host contract as at December 31, 2009.

c) Intermediation pool

Equity instruments are designated as available for sale and where a quoted market price in an active market is not available, they are recorded at cost. All other instruments are designated as loans and receivables and are recorded at amortized cost using the effective interest method. Interest and dividend income earned is included in the financial revenue — intermediation pool using the accrual basis of accounting. Accrued interest or dividends receivable are included with the corresponding principal balance. Other than temporary declines in market value are recognized as they occur in the determination of income. The Organization assesses whether a financial asset is other-than-temporarily impaired by assessing whether there is a significant or prolonged decline in fair value and objective evidence of impairment exists such as financial difficulty, breach or default of contracts, probability of bankruptcy or other financial reorganization.

Investment in Celero Solutions ("Celero")

Investments over which the Organization has significant influence are accounted for using the equity method. Under this method, the Organization accounts for its share of the net earnings (loss) of the investee. The book value of the investment is adjusted for the share of net earnings (loss) and distributions received from or paid to the investee. Investments are written down to recognize losses in the value of the investment that are other than temporary. The Organization assesses whether a financial asset is other-than-temporarily impaired by assessing whether there is a significant or prolonged decline in fair value and objective evidence of impairment exists such as financial difficulty, breach or default of contracts, probability of bankruptcy or other financial reorganization. The Organization accounts for increases in its ownership interests as step acquisitions. The Organization accounts for reductions in its ownership interest as dilution gains (losses).

Celero is an unincorporated operation that provides information technology services to the Organization, credit unions and other organizations. Pursuant to its agreement with the other investees, the Organization has a 31.4 % (2008 — 25.3%) ownership interest in Celero which in turn has a 49% ownership interest in Everlink Payment Services Inc. ("Everlink"), an incorporated entity that provides electronic switching services.

The Organization's share of Celero's net earnings (loss) is based upon the net earnings (loss) of the business lines that it contributed to the operation and its ownership interest in the net earnings (loss) of Celero's remaining activities.

Member credit unions that receive services through Celero are the beneficial owners of the Organization's interest therein. Accordingly, the Organization records an offsetting expense and an amount distributable to member credit unions equal to its share of Celero's net earnings. Conversely, should Celero incur a net loss from operations, the Organization records an offsetting contribution and an amount recoverable from its member credit unions.

d) Members' deposits

Members' deposits are designated as held for trading and recorded at their fair value initially using the transaction date for recognizing transactions. Members' deposits are redeemable at the option of the member credit unions and are recorded at the amount payable on demand. The amount payable on demand is computed by discounting contractual cash flows as follows:

- terms less than 13 months, using prevailing banker's acceptance rates offered by the Organization; and
- terms greater than 13 months, effective June 2008 using the corresponding market yield on Schedule I bank senior debt. Prior to June 2008, the amount payable was computed using the corresponding market yield on the original matched liquidity pool investment.

Interest expense is included in cost of funds using the accrual basis of accounting. Gains and losses arising from subsequent market valuations are recognized as unrealized gains (losses) on instruments held for trading.

e) Obligations under repurchase agreements

The Organization enters into short-term sales of securities under agreements to repurchase at predetermined prices and dates. The corresponding securities under these agreements continue to be recorded in Liquidity Pool assets. The obligations are designated as held for trading and are recorded at fair value initially and thereafter using the transaction date for recognizing transactions. These agreements are treated as collateralized borrowing transactions. Interest incurred on the obligation is reported in cost of funds using the accrual basis of accounting.

INCOME TAXES

The asset and liability method is used to account for future income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts and the tax bases of assets and liabilities including equity accounted investments. Future income tax assets and liabilities are measured using substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in the statement of operations in the period that includes the substantive enactment date. Future income tax assets are recognized to the extent that realization is considered more likely than not.

USE OF ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from such estimates.

AMORTIZATION

Amortization is recorded annually by the Organization at rates and on bases determined to charge the cost of capital assets over their estimated useful lives using the straight-line method as follows:

Technology and equipment	3 to 5 years
Furniture	5 to 10 years
Leasehold improvements	remaining term of the lease
Building	50 years

Costs for capital assets under development include direct development costs including overhead and interest costs, as applicable. Capitalization of costs ceases and amortization commences when the capital asset is substantially complete and ready for use.

CHANGES IN ACCOUNTING POLICIES

Goodwill and intangible assets

On January 1, 2009, the Organization adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, Goodwill and Intangible Assets (Section 3064). Section 3064, which replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs, provides clarifying guidance on the criteria that must be satisfied in order for an intangible asset to be recognized, including internally developed intangible assets. The CICA's Emerging Issues Committee (EIC) Abstract No. 27, Revenues and Expenditures During the Pre-operating Period, is no longer applicable once Section 3064 has been adopted. The impact of the section had no material impact on the Organization's consolidated financial position or results of operations.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the EIC issued Abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC-173). EIC-173 requires an entity to take into account its own credit risk and that of the relevant counterparty(s) when determining the fair value of financial assets and financial liabilities, including derivative instruments. This EIC, which was effective for the Organization on January 1, 2009, had no material impact on the Organization's consolidated financial position or results of operations.

Effective Interest Method — Amendments to: Financial Instruments — Recognition and Measurement, Section 3855

In June 2009, the CICA clarified Section 3855 with respect to the effective interest method which is a method of calculating the amortized cost of financial assets and financial liabilities and of allocating the interest income or interest expense over the relevant period. The impact of the clarification had no material impact on the Organization's consolidated financial position or results of operations.

Effective Interest Method — Amendments to: Financial Instruments — Recognition and Measurement, Section 3855

In June 2009, the CICA clarified Section 3855 with respect to the reclassification of financial instruments with embedded derivatives. A financial instrument classified as held-for-trading may not be reclassified when the embedded derivative, that would have to be separated upon reclassification of the combined contract, cannot be measured separately. The amendment was effective for reclassifications made on or after July 1, 2009 and as no reclassifications were recorded it had no impact on the Organization's consolidated financial position or results of operations.

Fair Value and Liquidity Risk Disclosure — Amendments to: Financial Instruments — Disclosures, Section 3862

In June 2009, the CICA amended Section 3862 to improve fair value and liquidity risk disclosures. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 — inputs are unadjusted quoted prices of instruments in active markets;
- Level 2 — inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 — one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The amendments only impact the Organization's disclosures (refer to note 14). The impact of the amendment had no material impact on the Organization's consolidated financial position or results of operations.

Impairment of Financial Assets — Amendments to: Financial Instruments — Recognition and Measurement, Section 3855

In August 2009, the CICA issued various amendments to Section 3855 which eliminated the distinction between debt securities and other debt instruments and changed the categories to which debt instruments are required or are permitted to be classified. As a result of these amendments:

- Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market may be classified as loans and receivables;
- Loan and receivables for which the Organization may not recover substantially all of the Organization's initial investment, other than because of credit deterioration, must be classified as available-for-sale; and
- Loans and receivables that the Organization intends to sell immediately or in the near term must be classified as held-for-trading.

The amendments also permit, upon adoption and on an on-going basis, certain financial assets to be reclassified from the held-for-trading and available-for-sale categories into the loans and receivables category, when specified conditions are met. They also require reversing an impairment loss relating to an available-for-sale debt instrument when, in a subsequent period, the fair value of the instrument increases and the increase can be objectively related to an event occurring after the loss was recognized. Impairment for debt instruments classified as loans and receivables will be assessed using the impairment model for loans. The impact of the amendment had no material impact on the Organization's consolidated financial position or results of operations.

FUTURE CHANGES TO ACCOUNTING POLICIES

Business Combinations, Consolidated Financial Statements, and Non-controlling Interests

In January 2009, the CICA issued three new accounting standards: Handbook Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests. Section 1582 provides clarification as to what an acquirer must measure when it obtains control of a business, the basis of valuation and the date at which the valuation should be determined. Acquisition-related costs must be accounted for as expenses in the periods they are incurred, except for costs incurred to issue debt or share capital. This new standard will be applicable for acquisitions completed on or after January 1, 2011 although adoption in 2010 is permitted to facilitate the transition to IFRS in 2010. Section 1601 establishes standards for preparing consolidated financial statements after the acquisition date; Section 1602 establishes standards for the accounting and presentation of non-controlling interests. These new standards must be adopted concurrently with Section 1582. The Organization does not expect that adoption of these standards will have a significant impact.

Embedded Prepayment Option — Amendments to: Financial Instruments — Recognition and Measurement, Section 3855

In June 2009, the CICA provided clarification to Section 3855 with respect to the accounting for embedded prepayment options. An embedded prepayment option in an interest-only or principal-only strip is closely related to the host contract, provided the host contract initially resulted from separating the right to receive contractual cash flows of a financial instrument, that, in and of itself, did not contain an embedded derivative; and does not contain any terms not present in the original host debt contract. This new standard will be applicable to the Organization on January 1, 2011 although adoption in 2010 is permitted to facilitate the transition to IFRS in 2010. The Organization does not expect that adoption of this amendment will have a significant impact.

International Financial Reporting Standards (IFRS)

In February 2008, the CICA confirmed that all publicly accountable enterprises will be required to report under IFRS effective January 1, 2011. IFRS will replace Canadian GAAP. The Organization has developed an IFRS project plan to guide the Organization in meeting these new standards.

[2] Liquidity Pool

	2009		
in thousands of dollars	**Held for Trading**	**Held to Maturity**	**Total**
Debt Securities			
Governments	5,738	—	5,738
Banks and trust companies	1,534,526	124,168	1,658,694
Corporate	556,636	20,808	577,444
	2,096,900	144,976	2,241,876
Overdraft	(11,141)	—	(11,141)
	2,085,759	144,976	2,230,735

	2008		
in thousands of dollars	**Held for Trading**	**Held to Maturity**	**Total**
Debt Securities			
Governments	266	—	266
Banks and trust companies	1,286,435	87,850	1,374,285
Corporate	556,957	12,351	569,308
	1,843,658	100,201	1,943,859
Overdraft	(13,577)	—	(13,577)
	1,830,081	100,201	1,930,282

The fair value of debt securities held to maturity is $153,158,000 (2008 — $98,395,000). The decline in fair value relative to carrying value in 2008 was due to the international credit and liquidity crisis which caused a temporary diminution in the value of these debt securities.

Interest income recognized from debt securities held to maturity during the year was $6,761,000 (2008 — $4,357,000).

The Organization has pledged certain liquidity pool debt instruments with a fair value of $429,444,000 as security for the obligation under repurchase agreements.

[3] Intermediation pool

in thousands of dollars	2009	2008
Loans and receivables		
Member loans		
Credit unions	134,187	168,821
Co-operatives	1,624	1,373
Mortgages	480	407
	136,291	170,601
Available for sale financial assets		
Shares		
Credit Union Central of Canada (CUCC)	5,521	3,546
Co-operatives	3,626	5,206
	9,147	8,752
Equity accounted investments		
Investment in Celero		
Loans receivable	10,731	13,873
Capital contribution	5,620	—
Share of net assets (deficiency)	(4,355)	(291)
	11,996	13,582
	157,434	192,935

The fair value of member loans and mortgages approximate their carrying value as these investments are generally due on demand at their carrying amount.

The fair value of shares is not readily determinable as they represent investments in equity instruments that do not have quoted market prices in an active market and accordingly fair value cannot be measured reliably. No current market exists for such investments and the Organization intends to hold such financial assets indefinitely.

On December 31, 2009, the Organization disposed of its investment in The CUMIS Group Limited (CUMIS) for aggregate proceeds of $4,506,000. Prior to disposal, the Organization received a dividend from CUMIS in the amount of $790,000, which was recorded in revenue — intermediation pool. The Organization recorded a gain on sale of $2,414,000 which was recorded in revenue — intermediation pool. The ultimate proceeds on disposal may be increased to reflect a final sale price. If the final sale price is in excess of the aggregate proceeds received, the additional payment will be recognized in fiscal 2010 as an additional gain on disposal.

On January 1, 2009, under the terms of the investees joint agreement, a re-determination of ownership interests was conducted by Celero whereby the Organization increased its ownership in Celero from 25.3% to 31.4% for nil acquisition cost. Furthermore, during the year the Organization made operating contributions of $489,000 (2008 — $91,000) and converted $5,620,000 of loans receivable to a capital contribution in Celero.

[4] Service related assets

in thousands of dollars	2009	2008
Land	1,379	1,379
Building	13,818	13,818
Technology and equipment, furniture and leasehold improvements	14,920	13,001
Accumulated amortization		
Building	(818)	(542)
All other	(7,924)	(7,402)
	21,375	20,254
Other receivables	12,216	3,666
Prepaid expenses and inventories	963	670
Future income taxes [note 8]	—	9,731
	13,179	14,067
	34,554	34,321

Amortization expense for the year was $1,519,000 (2008 — $1,291,000). Technology and Equipment includes $19,000 (2008 — $3,025,000) related to projects under development that are not amortized.

[5] Share capital

AUTHORIZED

Share capital consists of an unlimited number of Class I and II shares, to be issued and redeemed at $5 each.

MEMBERSHIP

Pursuant to the Organization's by-laws, member credit unions maintain investments in both classes of shares proportionate to their statutory (Class I) and excess (Class II) liquidity deposits held by the Organization.

Every member of the Organization is required to own a minimum of two Class I shares.

RIGHTS AND PRIVILEGES

At the discretion of the Organization's directors, dividends may be declared and paid to either or both classes of shares. On any return of capital, the holders of Class II shares have a preferential claim on the Organization's assets.

ISSUED AND OUTSTANDING

in thousands of dollars	2009	2008
Class I		
Manitoba credit unions	99,901	77,901
Co-operatives	1,228	1,228
Class II		
Manitoba credit unions	75,500	75,500
	176,629	154,629

During the year, $22,000,000 (2008 — $29,901,000) of Class I shares and Nil (2008 — $21,500,000) of Class II shares were issued for cash consideration.

[6] Related party transactions

The Organization and Celero provide various services to each other in the normal course of operations and such services are measured at the exchange amount. During the year, the Organization's charges to Celero aggregated $2,212,000 (2008 — $2,282,000) and Celero's charges to the Organization aggregated $520,000 (2008 — $498,000). The net recovery from Celero of $1,692,000 (2008 — $1,784,000) is included as an offset to net operating expense (note 7).

Interest charges to Celero on loans receivable was $351,000 (2008 — $629,000) for the year.

Other receivables include $64,000 due to Celero (2008 — $26,000 due from Celero).

[7] Net operating recovery

in thousands of dollars	2009	2008
Recoveries from members		
Clearing fees and other financial charges	6,484	6,495
Basic assessment	4,787	4,213
Fee for service	2,633	2,689
Liquidity management assessment	1,840	1,210
Printing and supplies — net of cost of $1,182 (2008 — $1,128)	104	225
The Credit Union Deposit Guarantee Corporation fees	224	224
Patronage rebate — The Co-operators	13	22
	16,085	15,078
Operating expenses		
Personnel	8,616	8,197
National shared costs	1,882	1,721
Amortization and leasing	1,540	1,431
Professional services	973	1,257
Settlement costs	1,038	1,068
Occupancy costs	660	983
Hardware and software maintenance	1,155	727
General	902	725
Co-operative democracy	517	473
Printing and supplies	184	274
Dues, grants and memberships	236	243
Travel	231	226
Insurance and bonding	191	193
Telephone and computer telecommunications	167	152
Postage and delivery	49	109
Capitalized Costs — assets under development [note 4]	(345)	(1,390)
Net recovery from Celero [note 6]	(1,692)	(1,784)
	16,304	14,605
Net operating recovery	(219)	473

[8] Income taxes

The Organization provides for income taxes at statutory rates as determined below:

shown as %	2009	2008
Federal base rate	38.0	38.0
Federal abatement	(10.0)	(10.0)
Additional deduction for credit unions	(17.0)	(17.0)
Net federal tax rate	11.0	11.0
Provincial tax rate	1.0	2.0
	12.0	13.0

The Organization's accounting income (loss) for tax purposes and related provision for income taxes are as follows:

in thousands of dollars	2009	2008
Income (loss) before income taxes	90,874	(61,326)
Non-taxable items		
Dividends	(836)	(2,410)
Non-taxable portion of capital gains	(1,214)	—
All other adjustments	(236)	96
Accounting income (loss) for tax purposes	88,588	(63,640)

in thousands of dollars	2009	2008
Expected provision for (recovery of) income taxes at statutory rates	10,631	(8,273)
Change in expected future tax rates	58	774
Other adjustments — net	—	22
Provision for (recovery of) income taxes on accounting income for tax purposes	10,689	(7,477)
Income tax savings on the payment of dividends	(896)	(933)
Total provision for (recovery of) income taxes	9,793	(8,410)

Dividends charged against reserves are net of the foregoing related income tax savings of $896,000 (2008 — $933,000).

The components of income taxes are as follows:

in thousands of dollars	2009	2008
Provision for (recovery of) current income taxes	(117)	123
Provision for (recovery of) of future income taxes	9,910	(8,533)
Provision for (recovery of) of income taxes	9,793	(8,410)

The significant components of future income taxes are as follows:

in thousands of dollars	2009	2008
Temporary differences between the net book value of certain expenditures for accounting purposes and tax purposes	(301)	(162)
Unrealized losses (gains) on instruments held for trading	(19)	9,696
Provisions for expenditure currently not deductible for income tax purposes	141	197
Future income taxes	(179)	9,731

[9] Directors' expenses

Directors received remuneration of $251,700 (2008 — $203,600) and expense reimbursement of $71,400 (2008 — $49,700).

[10] Pension plan

The Organization has a defined contribution pension plan for qualifying employees. The contributions are held in trust by the Cooperative Superannuation Society Limited and are not recorded in these financial statements. The Organization matches employee contributions at the rate of 6% of the employee salary. The expense and payments for the year ended December 31, 2009 were $348,200 (2008 — $330,000). As a defined contribution pension plan, the Organization has no further liability or obligation for future contributions to fund benefits to plan members.

[11] Unrealized gains (losses) on instruments held for trading

in thousands of dollars	2009	2008
Liquidity Pool Investments	70,065	5,100
Derivatives	28,975	(61,346)
Members' Deposits	(19,109)	(14,828)
Unrealized gains (losses) on instruments held for trading	79,931	(71,074)

By the end of 2009, financial markets had returned to more normal levels resulting in unrealized losses recorded in 2007 and 2008 reversing in 2009. Additionally, a significant portion of the Organization's investments matured during 2009 and the Organization was repaid in full. Unrealized gains and losses reverse upon maturity of the respective financial instruments; however, prior to maturity, these instruments are subject to fair value fluctuations due to changes in interest rate, foreign exchange and credit risks, as disclosed in note 14.

[12] Commitments

a) CUCM

During 2008, the Organization entered into a *Managed Services Agreement* with Misys International Banking Systems Inc. in respect to the hosted Treasury Management system (Opics) under which the Organization committed to pay $5,443,000 USD in hosting service fees over the ten year contract. The Organization is also committed under the Treasury Management system to pay Celero hosting service fees currently estimated to be $38,400 per annum for the life of the contract, subject to re-negotiations.

The Organization also entered into a software maintenance agreement with Metavante effective January 1, 2009 in respect to the Statement Services Project under which the Organization committed to pay $373,500 USD over the five year contract.

Commitments in each of the next five years are as follows:

in thousands of dollars	
2010	721
2011	736
2012	752
2013	767
2014	692

b) CELERO

Celero has entered into a *Software License Agreement* in respect of a banking platform for Celero's credit union clients under which Celero is committed to pay $18,102,000 in software maintenance fees over the next six years. Celero has entered into agreements with credit unions to recover these costs through operating fees over the term of these agreements.

Pursuant to various addendums to the *Software License Agreement*, Celero is also committed to pay $8,934,000 in ancillary product maintenance and support fees over the next six years.

Celero has entered an agreement with IBM Global Technology Services to upgrade its infrastructure. Under the terms of the agreement, Celero is committed to pay $11,559,000 over the next five years.

Celero has additional obligations under various agreements for equipment, licensing, maintenance and professional fees.

The Organization is indirectly liable in proportion to its 31.4% ownership interest (2008 — 25.3%) in Celero, for all of Celero's covenants and obligations under these agreements. Proportionate commitments in each of the next five years are as follows:

in thousands of dollars	Banking Platform	Ancillary Products	Infrastructure Upgrades	Other	Total
2010	947	468	1,853	573	3,841
2011	947	468	850	529	2,794
2012	947	468	577	385	2,377
2013	947	468	306	385	2,106
2014	947	468	43	385	1,843

c) EVERLINK

Celero has a 49% ownership interest in Everlink. In proportion to its 31.4% ownership interest in Celero, the Organization is indirectly liable for covenants and obligations under the following Everlink agreements.

Purchase of Switching Business

Under the terms of an *Asset Purchase Agreement*, Everlink acquired switching assets from third parties ("Vendor"). Everlink's principal remaining obligations under the purchase agreement are to continue to perform certain assumed obligations relating to customer and supplier contracts assigned to Everlink by the Vendor. These obligations expire in 2012.

Similar obligations exist under ancillary service agreements with the Vendor to provide switching services to the Vendor's customers, which expire in 2013.

Celero has provided a guarantee on these agreements in proportion to its ownership interest (49%) in Everlink. In the normal course of business, Everlink has met, and is expected to meet, all of its obligations under these agreements.

Financing Arrangements

Everlink has entered into financing agreements, consisting of a line of credit to a maximum of $2,000,000 and an authorized overdraft facility to a maximum of $6,275,000 (2008 — $6,375,000) and $100,000 USD. Celero has provided a guarantee on these agreements in proportion to its interest in Everlink. At December 31, 2009, there were no draws against the line of credit or the authorized overdraft facility.

[13] Guarantees

The Organization has agreed to indemnify its current and former directors and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents the Organization from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Organization maintains liability insurance coverage for directors and officers.

[14] Risk management

The Organization's primary financial objective is to manage the liquidity of Manitoba's credit unions. Due to the nature of operations, certain financial risks are customary. The Organization manages and mitigates risk through the diversification of its activities and development of risk management policies. The purpose of sound risk management is to provide reasonable assurance that incurred risks do not exceed acceptable thresholds and that risk-taking contributes to the creation of member value. For the Organization, this means striking a balance between return and risk.

In the normal course of business, the Organization is primarily exposed to the financial risks described below:

Credit Risk — Risk of a financial loss if an obligor does not fully honour its contractual commitments to the Organization. Obligors may include issuers of securities, counterparties or borrowers;

Liquidity Risk — Risk that the Organization will be unable to honour cash commitments without resorting to costly and untimely measures; and

Market Risk — Risk of a financial loss resulting from unfavourable changes in underlying market factors, primarily interest rates and foreign exchange rates.

Risk management framework

The Organization's risk management policies are designed to identify and analyse risks, to set appropriate risk limits and controls, to monitor the risks, and adherence to limits by means of reliable and up-to-date information systems. The Organization follows a risk management framework that involves identifying particular events or circumstances relevant to its objectives, assessing them in terms of probability and magnitude, determining a response strategy and monitoring progress. The Organization regularly reviews its risk management policies and systems to take account of changes in markets, products and emerging best practice.

Risk management is carried out by a number of delegated committees reporting to the Board of Directors. The Board provides written principles for risk tolerance and overall risk management and management report to the Board on compliance with the risk management policies of the Organization. In addition, the Organization maintains an Internal Audit function which is partly responsible for independent review of risk management and the Organization's control environment.

Financial instruments comprise the vast majority of the Organization's assets and liabilities. The Organization accepts current and term deposits from member credit unions at both fixed and floating rates, as applicable, for various periods and seeks to earn an interest rate margin by investing these funds in securities and derivatives which provide both fixed and floating rates, as applicable. The primary types of financial risk which arise from this activity are interest rate risk, foreign exchange risk, credit risk and liquidity risk.

The following table describes the significant financial instrument activities undertaken by the Organization, the exposure to risks associated with such activities and the objectives, policies and processes used in managing those risks.

Financial instrument activity	Risks	Risk management
Fixed rate debt securities — held for trading	Interest rate risk, credit risk and foreign exchange risk	Asset-liability matching, credit risk monitoring and use of derivative financial instruments
Fixed rate debt instruments matched to equity — held to maturity	Interest rate risk, credit risk and foreign exchange risk	Asset-liability matching and credit risk monitoring
Intermediation pool investments	Interest rate risk and credit risk	Asset-liability matching and credit risk monitoring
Members' deposits	Liquidity risk, interest rate risk and foreign exchange risk	Asset-liability matching and repurchase agreements

Credit risk

Credit risk represents the most significant risk facing the Organization in the normal course of business. The Organization is exposed to credit risk primarily through its Liquidity and Intermediation Pool investments, including its derivative financial instruments. The Organization serves as a source of liquidity for member credit unions. As such, all of the assets in the Liquidity Pool are readily convertible into cash. The financial assets recognized in the balance sheet represent the Organization's maximum exposure to credit risk as at the balance sheet date.

In managing credit risk, the Organization primarily relies on external rating agencies for Liquidity Pool investments. The Organization has quantified investment parameters which are monitored daily to ensure compliance with policy is maintained. The Organization does not invest in non-bank third party asset backed commercial paper. The Organization may only enter into financial instruments as follows:

Derivative financial instruments:

- Counterparties to derivative financial instruments are restricted to R-1 (Mid) and R-1 (High) rated Schedule I banks

Liquidity Pool investments:

- Generally, for investments maturing within 13 months, the minimum short term credit rating is R1-Low, or an equivalent minimum bond credit rating of A
- Generally, for investments maturing beyond 13 months and within 5 years, the minimum credit rating is AA (Low)

In addition to defining minimum credit ratings for all individual investments, aggregate limits exist to mitigate risks. The maximum composition of the Liquidity Pool investments is as follows:

Short-term credit rating	Bond credit rating	Maximum composition
R-1 (High)	AAA	100%
R-1 (Middle)	AA (Low)	80%
R-1 (Low)	A	20%

Furthermore to reduce credit risk, the Organization has diversification policies related to economic sectors and certain maximum individual security limits based on credit rating. The significant policies by economic sectors are as follows:

Sector	Maximum composition	Bond credit rating	Short-term credit rating
Government of Canada	100%	n/a	n/a
Provincial Governments	75%	AAA – BBB	R1 (High) – R2 (High)
Municipal Governments	20%	AAA – A	R1 (High) – R1 (Low)
Schedule I banks	80%	AAA – A	R1 (High) – R1 (Low)
Schedule II banks and investment broker dealers	10%	AAA – AA	R1 (High) – R1 (Mid)
Asset backed securities (ABS)	50%	AAA – A	R1 (High) – R1 (Low)
All other corporate	50%	AAA – A	R1 (High) – R1 (Low)
Total ABS and other corporate	85%	AAA – A	R1 (High) – R1 (Low)

The maximum investment term for each instrument must not exceed five years unless the investment is:

- specifically matched against a member deposit maturing beyond five years;
- matched to a derivative financial instrument, resulting in the net receipt of a floating interest rate;
- retractable at the Organization's option within 5 years; or
- a callable bond issued by Schedule I banks which pays a fixed rate for a term not exceeding five years and converts to a floating rate instrument if not called at the end of that period.

Liquidity Pool credit rating and period of maturity are as follows:

2009

in thousands of dollars

Credit rating	Less than 6 months	6 months to 1 year	1 to 5 years	Greater than 5 years	Total
AAA (R1H)	72,319	73,692	418,254	—	564,265
AA (R1M)	497,920	7,674	1,126,274	12,640	1,644,508
A (R1L)	—	—	33,103	—	33,103
	570,239	81,366	1,577,631	12,640	2,241,876

2008

in thousands of dollars

Credit rating	Less than 6 months	6 months to 1 year	1 to 5 years	Greater than 5 years	Total
AAA (R1H)	234,572	111,415	196,472	—	542,459
AA (R1M)	155,905	21,205	1,158,471	65,819	1,401,400
	390,477	132,620	1,354,943	65,819	1,943,859

Intermediation Pool investments:

- Regardless of its credit rating, the Organization is committed to investing in CUCC as required.
- Investments in other co-operatives, Celero, and mortgages and loans require approval by the investment committee of the Board of Directors where credit risk is assessed.
- Loans and overdrafts to member credit unions are secured by a Global Loan agreement which specifies that the Organization holds a security interest in all book debts and accounts. In the event of default, the Organization is authorized to realize on all security and apply the proceeds therefrom to its amount receivable.

Liquidity risk

The Organization's primary objective is to manage liquidity so as to ensure it is able to honour its commitments to member credit unions. This is done primarily by implementing a policy framework, approved by the Board of Directors, which establishes maximum asset/liability mismatches.

The Organization ensures that its Liquidity Pool investments are liquid and are appropriately matched to members' deposits as follows:

Term over 13 months

- Unmatched members' deposits and Liquidity Pool investments beyond 13 months are prohibited

Term of 180 days to 13 months

- Members' deposits must be specifically matched to Liquidity Pool investments of a similar term, however unmatched financial instruments maturing in 270–394 days and 180–269 days shall not exceed 2% and 4%, respectively, of the Liquidity Pool investments.

Term of less than 180 days

- Members' deposits and Liquidity Pool investments maturing within 180 days must be matched within 15 days based on the weighted average term to maturity of the respective financial instruments.

The Organization also utilizes repurchase agreements to obtain an additional source of liquidity. Under the repurchase agreements the Organization has pledged certain liquidity pool financial assets as security for the obligation under repurchase agreements. The security is pledged under the usual terms that provide, among other things, that the Organization bear the risks and rewards related to the security and the pledged assets be returned upon cessation of the specific agreement.

The contractual maturity of financial liabilities including members' deposits and obligations under repurchase agreements is as follows:

in thousands of dollars	2009					
	Current Accounts	**Less than 6 months**	**6 months to 1 year**	**1 to 5 years**	**Greater than 5 years**	**Total**
Members' deposits	728,359	251,201	126,518	703,964	—	1,810,042
Obligations under repurchase agreements	—	394,862	—	—	—	394,862
Derivative financial instruments	8,912	600	—	37,207	3,729	50,448
Contractual amount of liabilities	737,271	646,663	126,518	741,171	3,729	2,255,352
Fair value of liabilities	737,271	648,362	116,404	722,421	3,265	2,227,723

in thousands of dollars	2008					
	Current Accounts	**Less than 6 months**	**6 months to 1 year**	**1 to 5 years**	**Greater than 5 years**	**Total**
Members' deposits	463,078	586,070	100,027	590,658	13,810	1,753,643
Obligations under repurchase agreements	—	241,284	—	—	—	241,284
Derivative financial instruments	12,318	12,728	2,312	42,412	2,371	72,141
Contractual amount of liabilities	475,396	840,082	102,339	633,070	16,181	2,067,068
Fair value of liabilities	475,396	840,850	101,513	631,195	15,889	2,064,843

The change in fair value of members' deposits relates to changes in market conditions and do not relate to changes in the Organization's credit risk.

Foreign exchange risk

The Organization manages foreign exchange risk to minimize the risk of financial loss due to fluctuations in exchange rates. This is done primarily by implementing a policy framework, approved by the Board of Directors, which establishes maximum US dollar asset (liability) mismatches of $250,000 USD. The Organization enters into foreign exchange forward rate agreements, subject to credit risk policies, for the purpose of ensuring that its policy limitation is not exceeded and to provide a financial intermediary role for member credit unions. A foreign exchange forward rate agreement is a contractual arrangement between the Organization and a counterparty involving the commitment of a purchase or sale of U.S. dollar funds to settle on a future date at a predetermined exchange rate. The Organization does not enter into forward rate agreements for speculative purposes. The net US dollar asset (liability) mismatch as of December 31, 2009 was $182,000 USD.

As at December 31, 2009, the Organization has entered into foreign exchange forward rate agreements to buy US dollars aggregating $17,542,660 USD and to sell US dollars aggregating $15,470,000 USD, inclusive of transactions with member credit unions. The credit risk associated with these agreements is the responsibility of the Organization.

As at December 31, 2009, if the Canadian dollar had strengthened or weakened by 1% relative to the US dollar, with all other variables held constant, after tax net income for the year would have increased or decreased by a nominal amount, respectively.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of the Organization's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Financial Margin reported in the statement of operations may increase or decrease in response to changes in market interest rates. Accordingly, the Organization sets policy limits, approved by the Board of Directors, on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by the Organization's management who is responsible for managing interest rate risk.

In managing interest rate risk, the Organization relies primarily upon use of asset-liability and interest rate sensitivity models. Periodically, the Organization may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the re-pricing of the Organization's financial instruments. The objective of "interest rate sensitivity" management is to match interest-sensitive assets with interest-sensitive liabilities as to amount and as to the term to their interest rate re-pricing dates, thus minimizing fluctuations of income during periods of changing interest rates. The following summarized schedule shows the Organization's sensitivity to interest rate changes:

in thousands of dollars

Interest repricing period	Interest sensitive	Not interest sensitive	Derivative Receiving	Derivative Paying	Net asset/liability mis-match
0 to 6 months	(639,211)	(21,193)	672,440	(48,000)	(35,964)
6 to 12 months	54,386	(29,645)	—	—	24,741
1 to 2 years	138,069	(20,339)	—	(114,499)	3,231
2 to 3 years	379,170	(22,012)	—	(351,500)	5,658
3 to 4 years	181,419	(72,150)	—	(108,441)	828
4 to 5 years	20,993	—	—	(20,000)	993
Over 5 years	30,513	—	—	(30,000)	513
	165,339	(165,339)	672,440	(672,440)	—

The weighted average effective return for interest-sensitive assets is 4.21% and the weighted average effective cost for interest-sensitive liabilities is 3.82%.

A significant amount of investments and deposits can be sold or redeemed before maturity, but no adjustment has been made for sales or redemptions that may occur. Amounts that are not interest sensitive have been categorized in repricing periods that correspond to the Organization's asset/liability deployment policies and investment strategies.

A positive asset/liability mis-match for a given interest repricing period (period gap) indicates that a rise in interest rates would increase the Organization's financial margin effective with that period while a fall in interest rates would decrease the financial margin. If the period gap for a given repricing period is negative, then an increase or decrease would have the opposite effect from a positive gap. The Organization has established a policy to limit the mis-match in each period to prevent significant financial margin fluctuations.

The Organization enters into interest rate swap agreements (swaps) for the purpose of managing interest rate risk, the notional amounts of which are reflected in the table above. A swap is a contractual agreement between the Organization and a counterparty involving the exchange of fixed rate and floating rate payments structured in a manner to reduce the extent of the Organization's interest rate risk to a level which management believes is reasonable. The contracted terms of the swaps are specifically matched to specific terms of debt securities. The Organization does not enter into swaps for speculative purposes.

Additionally, the Organization, in its role as a financial intermediary, has entered into interest rate swap agreements, and index-linked swap agreements, on behalf of its member credit unions. The credit risk associated with the interest rate agreements is the responsibility of the member credit unions. The credit risk associated with the index-linked agreements is the responsibility of the Organization.

Sensitivity analysis is used to assess the change in value of the Organization's financial instruments against a range of incremental basis point changes in interest rates. Based on current differences between financial assets and financial liabilities as at December 31, 2009, the Organization estimates that an immediate and sustained 25 basis point increase in interest rates would decrease financial margin by $284,000 while an immediate and sustained 25 basis point decrease in interest rates would increase financial margin by $286,000.

Fair Value Measurements

CICA 3862 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Organization's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchange traded derivatives like futures;
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the Organization's derivative contracts, debt instruments and members' deposits. The sources of input parameters like LIBOR yield curve or counterparty credit risk are derived from Bloomberg.
- Level 3 — Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Organization considers relevant and observable market prices in its valuations where possible.

in thousands of dollars	Level 1	Level 2	Level 3	Total
Financial assets — held for trading				
Governments	—	5,738	—	5,738
Banks and trust companies	—	1,534,526	—	1,534,526
Corporate	—	556,636	—	556,636
Overdraft	(11,141)	—	—	(11,141)
Derivatives	—	3,263	—	3,263
Total Assets	(11,141)	2,100,163	—	2,089,022
Financial liabilities — held for trading				
Members' deposits	—	1,794,383	—	1,794,383
Obligations under repurchase agreements	—	385,461	—	385,461
Derivatives	—	47,879	—	47,879
Total Liabilities	—	2,227,723	—	2,227,723

[15] Capital management

Capital is managed in accordance with policies established by the Board of Directors and OSFI. Management regards a strong capital base as an integral component of the Organization's strategy. The Organization has a capital plan to provide a long-term forecast of capital requirements. The Organization also has a monthly capital adequacy assessment through which management performs an early financial statement close process to assess compliance with OSFI's imposed capital ratios. The Organization's stated objective for its borrowing multiple, the ratio of debt to regulatory capital, is a 16.5 : 1 ratio. Pursuant to OSFI regulations, the Organization is required to maintain a borrowing multiple of 20 : 1 or less. The Organization defines regulatory capital as the sum of its stated share capital and reserves (deficiency) reduced by assets specifically identified by OSFI's regulations. Specific reductions include future income tax assets and unrecognized losses on the Organization's held to maturity liquidity pool debt security portfolio.

All of the elements of capital are monitored throughout the year. The Organization has a clear and unencumbered process to access required capital from its member credit unions to attain certain capital ratios generally through a 15 day notification process or in unusual circumstances an emergency capital call and corresponding immediate reduction in members' deposits. The Organization also makes periodic dividend payments on members' equity, within the context of its overall capital management plan.

As of December 31, 2008, the Organization was not in compliance with its required OSFI capital adequacy ratio. In February 2009, the Organization secured additional capital from its member credit unions to meet both the Organization's stated capital objectives and OSFI's capital adequacy requirements.

The Organization filed its annual OSFI return for the year ended December 31, 2009 on February 25, 2010. At December 31, 2009, the Organizations' borrowing multiple was 10.93 : 1 (2008 — 22.37 : 1).

[16] Comparative figures

Certain comparative amounts have been reclassified to conform with the current year's presentation.

Dedicated to Serving Manitoba

The strength of the Manitoba credit union system is people. Please join us in congratulating these individuals who have worked and volunteered to make their credit unions and the system what they are today.

Altona (Access) and Belgian (Belgian-Alliance) credit unions celebrated their 70th anniversaries in 2009

Austin, Gimli, Niverville and Winnipeg Police credit unions all celebrated 60 years

Thirty-Five Years

Paul Gair *Chief Information Officer, Crosstown Civic Credit Union*
Marcel Rainville *Director, BCFS, Assiniboine Credit Union*
Rita Ramchandar *Manager, Cash Services Support, Assiniboine Credit Union*
Bev Ruston *Office Manager, SunRise Credit Union*
Marianne Shewchuk *Proof Clerk, Credit Union Central of Manitoba*
Michael Taylor *General Manager, Winnipeg Police Credit Union*

Thirty Years

Irma Albright *Asst. Branch Manager/Loan Officer III, Crosstown Civic Credit Union*
Neal Boyce *Investment Account Manager, Crocus Credit Union*
Susan Davy *Credential Financial Strategies Advisor, Assiniboine Credit Union*
Shirley Delaurier *Branch Manager, Prairie Mountain Credit Union*
Doris Dyck *Member Services Manager, North Winnipeg Credit Union*
Brenda Ellis-Anderson *Branch Manager, SunRise Credit Union*
Patricia Furgala *Loans Documentation Clerk, Riverton Credit Union*
Maureen Johnson *Marketing Manager, Riverton Credit Union*
Sharon Larsen *Manager, Member Service & Administration, Erickson Credit Union*
Dennis Matthies *Branch Manager, Access Credit Union*
Brian McLarty *Assistant Manager, Crosstown Civic Credit Union*
Lori McNabb *Agricultural Loans Officer, Minnedosa Credit Union*
Rosie Mukai *Financial Account Manager, Assiniboine Credit Union*
Stephie Pilat *Member Services Representative, North Winnipeg Credit Union*
Dale Scott *General Manager, Roblin Credit Union*
Delphie Tucker *Member Services Representative, Prairie Mountain Credit Union*
Ward Wilton *Credit Analyst II, Credit Union Central of Manitoba*
Phyllis Wood *Loans Manager, Winnipeg Police Credit Union*

Twenty-Five Years

Shelley Arason *Loans Clerk, SunRise Credit Union*
Reava Ash-Gauthier *Senior Loans Officer, Winnipeg Police Credit Union*
Gayle Branconnier *Administration Supervisor, Swan Valley Credit Union*
Kaydee Deremiens *Human Resource Officer, SunRise Credit Union*
Clifford Froese *Small Business Account Manager, Steinbach Credit Union*
Karen Guest *Training & Development Manager, Cambrian Credit Union*
Valerie Hokanson *Loans Officer, Riverton Credit Union*
Rae Johnston *Dealer Finance Loan Officer, Assiniboine Credit Union*
Les Kuzyk *Personal Lender, Dauphin Plains Credit Union*
Donna Lacy *Centralized Services Representative, Cambrian Credit Union*
Michael Leitch *Senior Research Analyst, Credit Union Central of Manitoba*
Daren Miguez *Loans Administrator, Crosstown Civic Credit Union*
Colleen Nash *Administration Manager, Oak Bank Credit Union*
Frank Pisa *Board of Directors, Cambrian Credit Union*
Cheryl Ripmeester *Member Services Representative, SunRise Credit Union*
Hugh Tibbs *Information Systems Support Representative, Cambrian Credit Union*
Neil Van Ryssel *Board Chair, Oak Bank Credit Union*
Diane Welby *Lending Manager, Me-Dian Credit Union*
Caroline Willis *Credit Administration Supervisor, Swan Valley Credit Union*
Gwen Wooley *Payroll/ Benefits Administrator, SunRise Credit Union*

Credit Union Central of Manitoba Limited
Incorporated in 1950 by Statute of
the Province of Manitoba, Canada

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Credit Union Central of Canada
Bank of Nova Scotia

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